

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2019/2020

BAC3664 – ACCOUNTING THEORY

(All sections / Groups)

12 JUNE 2020
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **3** pages with **4** Questions only not inclusive the cover page.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

In considering accounting regulation, some proposed for eliminating regulation, while some proposed why regulation might be necessary.

- (a) Advocates of the free-market (anti-regulation) argue that there are private economic incentives and market incentives for organisations to produce accounting information voluntarily. Discuss private economic incentive and market incentives supporting argument of free market.

(20 marks)

- (b) Different group with incompatible/mutually exclusive interests and objectives is viewed as often being in conflict with each other and they will lobby regulators to put in place legislation that economically benefits them. Provide examples of lobbying of regulator for the sake of group benefits.

(5 marks)

(Total: 25 marks)

QUESTION 2

- (a) Based on management's analysis of sales returns and allowances and uncollectible accounts, Time Warner established "reserves of \$2,253 billion and \$2,229 billion at December 31, 2009 and 2008, respectively. These estimates represent about 30 percent of gross accounts receivable in both years. Management explains that this is an "area of judgment affecting reported revenues and net income" and is based on analysis of "vendor sell-off of product, historical return trends, current economic conditions, and changes in customer demand" (Times Warner Inc., 2010). This is perhaps an example of conservative to neutral earnings management."

(Source: Needles Jr. B.E., Powers M., Senyigit Y.B. 2018. MED -Journal of Accounting Institute)

- (i) What is conservative earnings management. How to distinguish earnings management and fraud?

(7 marks)

- (ii) Explain any **FOUR (4)** negative consequences of earnings management **AND** provide **TWO (2)** roles of auditor to combat earnings management.

(13 marks)

- (b) System oriented theories considering unregulated corporate reporting decisions. Provide **TWO (2)** roles of corporate reporting according to Ethical branch of Stakeholder Theory.

(5 marks)

(Total: 25 marks)

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QUESTION 3

(a) Many research papers have investigated capital market reactions to corporate earnings announcements. This give rise to the emergence of an *event study*.

(i) Explain what is an event study.

(5 marks)

(ii) Briefly explain **FIVE (5)** reasons why would an event study be of relevance to an accounting standard-setter?

(10 marks)

(b) Capital markets research relies on the underlying assumption that equity markets are efficient. Most studies that attempt to determine the impact of the release of accounting information on share returns; and those that consider the effects of changes in accounting policies on share prices, have been conducted according to the efficient markets hypothesis (EMH).

(i) Define and explain market efficiency based on the EMH.

(5 marks)

(ii) Fama distinguished between three information sets: weak-form efficiency, semi strong-form efficiency and strong-form efficiency. Explain which form is the most important to accounting research.

(5 marks)

(Total: 25 marks)

QUESTION 4

(a) Behavioural research considers how individuals react or behave when provided with particular items of information. In reflecting on the evolution of behavioural research, Dyckman (1998, p. 1) states:

“While research in behavior is anything but new, it was not until the twentieth century that researchers investigated the behavior of individuals in business organizations. Research into the behavioral impact of what occurs in accounting is an even more recent phenomenon, traceable perhaps back to the early sixties although the groundwork for much of the early efforts had been laid earlier.”

(Source: Dyckman, T. R. (1998), ‘The ascendancy of the behavioral paradigm in accounting: the last 20 years’, *Behavioral Research in Accounting*, 10, pp. 1–10.)

Judgment and Decision-Making (JDM) research was introduced that provides a useful overview of behavioural research in accounting. Discuss the Judgment and Decision-Making (JDM) research.

(10 marks)

Continued.....

- (b) Financial accounting is often criticized on the basis that it ignores many of the social and environmental externalities caused by the reporting entity. Hence, its suitability for assisting in the disclosure of social and environmental information is questioned.

Discuss **FIVE (5)** main reasons why traditional financial accounting may not be able to reflect the social and environmental impact of organizations effectively.

(15 marks)

(Total: 25 marks)

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